

GLOBAL FISCAL ISSUES: LFC RECOMMENDATIONS TO THE 2003 LEGISLATURE

Prepared for the
Legislative Finance Committee

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PURPOSE

To provide, in accordance with statute, recommendations for a procedural framework during legislative session for making certain appropriations decisions on global budget issues common to all subcommittees that, for purposes of equity and clarity, should be universally applied to all agencies.

Recommendations should be confined to those areas common to more than one subcommittee that should be universally applied.

BACKGROUND

During a legislative session, several appropriations issues/procedures have a "global" impact in that they affect more than one appropriations subcommittee, and there is necessity for consistency in action. Therefore, some of the issues will require decisions prior to commencement of subcommittee action. In past sessions, scheduling has made it difficult to resolve global budget issues prior to commencement of appropriation subcommittee action.

Senate Bill 19, passed by the 1997 legislature, revised Section 5-12-205, MCA (powers and duties of the Legislative Finance Committee) to require that the LFC make recommendations to appropriations committee leadership prior to each session on global budget issues. The statute is as follows:

5-12-205 (4) [The Legislative Finance Committee] shall, before each regular and special legislative session involving budgetary matters, prepare recommendations to the house appropriations committee and the senate finance and claims committee on the application of certain budget issues. At a minimum, the recommendations must include procedures for the consistent application during each session of inflation factors, the allocation of fixed costs, and the personal services budget. The committee may also make recommendations on other issues of major concern in the budgeting process, such as estimating the cost of implementing particular programs based upon present law.

There are a number of issues that should be applied in a global manner. They fall into three general categories:

- those where some consistency of action might be deemed desirable, such as the application of vacancy savings and inflation rates;
- those decisions where required payments are established by previous legislative action, such as application of legislatively authorized pay plan levels; and

- those where the budgets of the individual agencies are driven by budgets established centrally, such as the fixed costs used to fund programs like the Information Services Division (ISD) and central purchasing, and where the agency paying the cost has no flexibility in whether or at what level the charges will be paid.

The following sections summarize these issues and provide options for consideration by the Legislative Finance Committee in formulating a recommendation to appropriations leadership in preparation for the 2003 legislative session.

GLOBAL PRESENT LAW ISSUES FOR CONSIDERATION

1 - Starting budget base for subcommittee deliberations – For consistency and clarity of the budget process, the subcommittees should probably start from the same budget base. While there may be additional options, the most obvious choices are: 1) the base budget (fiscal year 2002 actual expenditures); or 2) the executive present law budget. These are the two levels provided in the Executive Budget submission. The 2001 legislature started at the base budget. The present law budget includes caseload, workload, and enrollment increases as well as other costs necessary to continue present services. Starting at the base budget means that no adjustments can be made without specific legislative approval. Starting at present law or any other inclusion of executive budget proposals means that changes to the present law base/proposals would require a majority vote to make a change. (Some of the present law adjustments and new proposals in this session will be negative amounts that would reduce the budget.) Since the legislature will be dealing in the 2003 session with a deficit of an estimated \$250 million, the traditional option of starting at the base budget may not be the best option. Option “b” below is a variation of option “a” that addresses the current deficit situation.

Option a Direct subcommittees to begin executive action by adopting the base budget, and amending the budget from the base. Changes to the base, either reductions or enhancements, will require a positive vote. This base level will be above available revenues and will require net reductions through amendments, or revenue enhancements to sustain.

Option b Direct subcommittees to begin executive action by adopting the executive budget, with the exception of positive new proposals. This would provide a starting point in a deficit budget session that more closely matches available funding, since the executive must submit a balanced budget. It does mean that the starting base would include executive policy decisions as well as some proposals that require bills to implement statutory changes. It is only the starting point, however, and doesn’t preclude any adjustments or re-prioritization of the budget. It would mean, however, that any adjustments to the executive budget would require an amendment and a positive vote.

Option b Direct subcommittees to begin executive action by adopting the executive present law budget. Executive present law budget requests would require an amendment to be removed from the budget.

2 - Personal Services - Personal services have been adjusted in present law numbers for changes in statutory pay plan and benefit rates (workers' compensation, health insurance, social security taxes, etc.). This includes adjustments to fully fund FTE as approved by the 2001 legislature. These adjustments are included in the personal services statewide adjustments. Since these totals are statute and formula driven, the statewide adjustments should not be adjusted for individual agencies and programs. Instead, the legislature can make adjustments via two ways: 1) reducing (or adding) FTE; and 2) application of vacancy savings to account for natural or expected vacancies during the year.

The issue of personal services statewide adjustments is complicated by the fact that the Executive Budget includes a vacancy savings rate, which is a policy decision, in the statewide personal services present law adjustments. For the 2003 session, it will be displayed as a separate line in the present law table. The committee may wish to recommend that the subcommittees accept the statewide present law adjustments, excepting the executive vacancy savings.

Option a: Direct subcommittees to adopt statewide present law adjustments as part of the base budget, including fixed costs. Any FTE adjustments would be dealt with as an adjustment to present law.

Option b: Direct subcommittees to adopt statewide present law adjustments, including fixed costs, as part of the base, excepting the executive vacancy savings level.

3 - Quantification of FTE Reductions - Within the budgeting system, each FTE is individually budgeted by using two factors: 1) actual budgeted salary, and 2) related benefits. Benefits are calculated through the use of formulae. Adjustment of funding due to addition or elimination of specific FTE requires a methodology for determining what level of funding will be adjusted.

Issue: How should monetary adjustments to each budget be calculated when FTE funding is added or eliminated?

Option a: Specify the actual FTE, and allow the legislative budgeting system to calculate the total reduction in funding for that specific FTE.

Option b: Specify an estimated level of funding to be reduced or added.

4 - Vacancy Savings – If the legislature includes a vacancy savings rate, the committee may wish to discuss whether and at what level the application of vacancy savings should be consistently applied among all agencies/programs, or whether subcommittees should consider vacancy savings on a case-by-case basis. With a few exceptions, the 2001

legislature applied an across-the-board 4 percent vacancy savings for agencies with 20 or more FTE. (In prior biennia, there have been a variety of vacancy savings policies, from no vacancy savings, to a global consistent application on a percentage basis, to a selective basis of application.)

Option a: The full appropriations committees shall adopt a global recommended level of personal services reductions (vacancy savings). Subcommittees will be requested to adopt the recommended level as part of their budget recommendation.

Option b: There will be no recommendation from the full committees on personal services reductions. Subcommittees may adopt vacancy savings levels on a case- by-case basis.

5 - Fixed Costs - Fixed costs include such items as audit, payroll, capitol grounds maintenance, rent, and computer network and data processing charges. These interagency services are provided by a service agency and fees are charged to agencies on a uniform basis via various formulae or estimates of actual costs. Since agencies must pay all billed fixed costs, the appropriation can be adjusted only by the rates charged by the agency providing the service. Any changes in fixed costs could be applied uniformly based upon the recommendation of the subcommittee examining the service provider's budget.

Note: The budgets of agencies/programs providing the services upon which the rates are determined would continue to be examined by subcommittees (primarily general government), and the rates would be adjusted globally by that subcommittee.

Recommendation: Direct subcommittees to consistently apply fixed costs in agency budgets as included by the executive budget request. Adjustments to fixed cost rates shall be determined by the subcommittee examining the service provider's (e.g., ISD costs as reviewed by the General Government Subcommittee) and shall be globally adjusted on a consistent basis.

6 - Inflation - The committee could recommend that the full committee establish categories of expenditures to inflate/deflate and the appropriate inflation rates to apply. The subcommittees would determine the appropriate level of expenditures in each of the expenditure categories prior to inflation, and allow inflation to be automatically calculated based on globally determined inflation rates.

Recommendation: The full committee should establish approved inflation rates (if any) by individual object of expenditure. Direct subcommittees to apply these rates to all budget adjustment recommendations.

ISSUES RELATED TO HOUSE BILL 2 PROCEDURE

1 - Proposals Requiring Legislation - Implementation of some proposals that require House Bill 2 appropriations will require implementation of complementary legislation.

Issue: How will changes in House Bill 2 that are dependent upon the passage of other bills be made?

Option a: Subcommittees make recommendations regarding the proposal. Build all changes requiring legislation into the House Bill 2 line-items, and include contingency language striking the change if the legislation does not pass.

Option b: Do not include the changes requiring legislation in HB 2 line items, but include contingency language enacting the change if the legislation does pass.

Option c: Make no recommendations or adjustments to HB 2 until required legislation passes.

Note: The handling of appropriations contingent on legislation can have a significant impact on the general fund status sheet tracking system. Option (c) was utilized in the 2001 session, and the general fund status report was amended to separately report the impact of outstanding contingency bills on House Bill 2. In view of the number of negative dollar decision packages that will be offered to reduce services and the number of those decision packages that will need statutory changes to effect them, it may provide a better tracking of general fund status if option "a" is adopted.

2 - Disposition of "Negative" New Proposals - Negative proposals have been used in the past to signify a separate reduction in the appropriation, without specifying where the reduction should be made. The legislative budgeting system and statute cannot accommodate a negative appropriation in House Bill 2.

Recommendation: Appropriations committee leadership shall direct the appropriations subcommittees to include negative new proposals in the present law line item in the budget, as opposed to a separate negative line item appropriation.